SOCIAL SECURITY/MEDICARE/SDI TAXES PAID BY AN EMPLOYER

An employer may pay an employee's share of Social Security and/or Medicare (taxes imposed under the Federal Insurance Contributions Act - FICA) or State Disability Insurance (SDI) without deducting from the employee's salary. The payments made by the employer on behalf of their employee may constitute additional wages depending on the type of employer.

A Domestic or Agricultural Employer

When a domestic or agricultural employer pays **Social Security and/or Medicare** without deduction from their employee's wages, the additional amount **is not** considered an increase to the employee's wages when calculating the Unemployment Insurance (UI), Employment Training Tax (ETT) or SDI taxes.

When a domestic or agricultural employer pays the employee's **SDI taxes** without deduction from their wages, the additional amount **is** considered an increase to the employee's wages for employment tax purposes and **is** subject to UI, ETT, and SDI taxes.

Domestic and agricultural employers are not required to withhold Personal Income Tax (PIT) from wages. However, the amount the employer paid in **Social Security/Medicare and/ or SDI** (without deduction from the employee's pay) is to be included as part of the employee's wages when reporting PIT wages. These amounts should be included on the W2 and reported by the employee as taxable income on their personal income tax returns.

All Other Employers
(Non-domestic/non-agricultural employers)

When non-domestic and non-agricultural employers pay the employee's share of Social Security/Medicare and/or SDI without deducting it from the employee's wages, the employee's wages increase by the amount of Social Security/ Medicare and/or SDI paid. The amount the employer paid is subject to UI, ETT and SDI, is reportable as PIT wages, is subject to PIT withholding, should be included on the W2, and reported by the employee as taxable income on their personal income tax returns.

Determining Reportable Wages

The following formula is used to calculate an employee's reportable wage:

$$\text{Formula:} \quad \frac{S}{(1 - R)} = W$$

S = Actual amount of salary paid, without deductions, to employee by the employer
R = Rate of tax or taxes paid
W = The employee's reportable wage

RATE TABLE

	1997	1998	1999	2000 eff. 1-1-00 3-31-00	2000 eff. 4-1-00 12-31-00
SDI ONLY	.0050	.0050	.0050	.0050	.0070
FICA ONLY	.0765	.0765	.0765	.0765	.0765
FICA & SDI	.0815	.0815	.0815	.0815	.0835

NOTE: The percentage rate used in the formula will change whenever the FICA or SDI tax rates change.

W-2 Form

For purposes of the W-2 form, the reportable state wage will include the increase discussed above based on your calculations. Also, the SDI should be shown on the W-2 form in box 21 as though the SDI amounts were actually withheld.

Voluntary Plan - Disability Insurance

If the employer has an approved voluntary disability insurance plan (VPDI) in lieu of the SDI, the amounts paid into the plan by the employer do not constitute additional wages to the employee. The VPDI amount shown on the W-2 form should be zero.

The following examples illustrate the different possible reporting calculation for employers.

Employer pays both the employee's share of FICA and employee's SDI

Example 1
Domestic or Agricultural Employers

Salary paid to your employee (second quarter of 2000) = $1,000.00. The reportable wages subject to UI, ETT, and SDI are $1,007.05 (when domestic/agricultural employer pays FICA the reportable wage does not increase.)

To calculate wages subject to UI, ETT, and SDI use the rate in the "SDI Only" row under the second quarter year 2000 column for "R" and complete the calculation:

$$\$1,000.00 \div (1 - .0070) = \$1,007.05$$

The reportable PIT wages (to be entered onto your DE 6 and would be included as wages on the employee's W-2 form) are $1,091.11. To calculate the reportable PIT wages use the rate in the "FICA & SDI" row under the second quarter year 2000 column for "R" and complete the calculation:

$$\$1,000.00 \div (1 - .0835) = \$1,091.11$$

Example 2
All Other Employers

Salary paid to your employee (second quarter of 2000) = $1,000.00. The wages subject to UI, ETT, and SDI are $1,091.11. This is also the figure you would multiply your UI, ETT and SDI rates by to determine the amount to pay for those taxes. The same amount, $1,091.11, is reportable as PIT wages on your DE 6 and is subject to PIT withholding. This same amount would be included as wages on the W-2 form issued to the employee.

To calculate wages subject to UI, ETT, and SDI and your employee's reportable wages, substitute the figure shown in the "FICA & SDI" row under the column for the second quarter year 2000 column for "R" and complete the calculation:

$$\$1,000.00 \div (1 - .0835) = \$1,091.11$$

Employer pays employee's share of FICA only

Example 3
Domestic or Agricultural Employers

Salary paid to your employee (second quarter of 2000) = $1,000.00. The reportable wages subject to UI, ETT, and SDI = $1,000.00 (Payments made for FICA for your employee are not included when calculating the UI, ETT, and SDI taxes.)

The reportable PIT wages (to be entered onto your DE 6 and would be included as wages on the employee's W-2 form) are $1,082.84. To calculate the reportable PIT wages use the rate in the "FICA Only" row under the second quarter year 2000 column for "R" and complete the calculation:

$$\$1,000.00 \div (1 - .0765) = \$1,082.84$$

Example 4
All Other Employers

Salary paid to your employee (second quarter of 2000) = $1,000.00.

The wages subject to UI, ETT, and SDI are $1,082.84. This is also the figure you would multiply your UI, ETT and SDI rates by to determine the amount to pay for those taxes. The same amount, $1,082.84, is reportable as PIT wages on your DE 6 and is subject to PIT withholding. This is also the amount that should be reported as wages on your employee's W-2.

To calculate your employee's reportable wages substitute the figure shown in the "FICA Only" row under the second quarter year 2000 column for "R" and complete the calculation:

$$\$1,000.00 \div (1 - .0765) = \$1,082.84$$

Employer pays the employee's SDI only

Example 5
For All Employers*

Salary paid to your employee (second quarter of 2000) = $1,000.00. The reportable wages subject to UI, ETT, and SDI is $1,007.05, this is also the amount that is reportable as PIT wages on your DE 6. This same amount would be included as wages on the W-2 form issued to the employee.

To calculate your employee's reportable wages substitute the figure shown in the "SDI Only" row under the second quarter year 2000 column for "R" and complete the calculation:

$$\$1,000.00 \div (1 - .0070) = \$1,007.05$$

*For Non-domestic and Non-Agricultural Employer
(The same amount, $1,007.05, is subject to PIT withholding.)

References

The California Unemployment Insurance Code (CUIC) governs and defines reportable wages in California. Section 935 of the CUIC excludes from wages, for UI, ETT, and SDI purposes, payments made by domestic and agricultural employers for the employee's share of FICA. Section 926 of the CUIC governs all other employers (non-domestic and non-agricultural employers) when determining wages subject to UI, ETT, and SDI.

Domestic and agricultural service employers are not required to withhold PIT from wages. However, these wages should be reported by the employees as taxable income on their personal income tax returns. Therefore, the employer is required to report the wages as PIT subject wages. Sections 13020, 13009, and 13009.5 of the CUIC govern the PIT withholding and the reportable PIT wages.

Additional Information

If you have any questions, you may contact your local Employment Tax Customer Service Office (ETCSO) listed on page 1 of the California Employers Guide, DE 44, our web site at **www.edd.ca.gov** under Department Directory or see the State Government Offices section of the telephone book under Employment Development Department: Payroll Tax Information And Assistance.

Equal Opportunity Employer/Program. Auxiliary services available to individuals with disabilities.